

**FARR WEST CITY**  
**FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY DATA**

**JUNE 30, 2006**

FARR WEST CITY  
TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 - 2
Management's Discussion and Analysis	3 - 7
<b>Basic Financial Statements</b>	
Government-wide Financial Statements	
Statement of Net Assets	8
Statement of Activities	9
Governmental Funds Statements	
Balance Sheet	10
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	11
Statement of Revenues, Expenditures, and Changes in Fund Balances	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Proprietary Funds Statements	
Statement of Net Assets	14
Statement of Revenues, Expenses, and Changes in Fund Net Assets	15
Statement of Cash Flows	16 - 17
Notes to Financial Statements	18 - 30
<b>Required Supplemental Information</b>	
Schedule of Revenues, Expenditures, and Changes to Fund Balances - Budget and Actual - General Fund	31 - 34
<b>Other Supplemental Information</b>	
Schedule of Impact Fees	35
<b>Auditor's Reports</b>	
Independent Auditor's Report on State Legal Compliance	36 - 37
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	38 - 39
Status of Fiscal Year 2005 Findings and Recommendations	40 - 41

# ***Davis, Chase & Associates, P.C.***

***Certified Public Accountants***

***Steven J. Davis, CPA, CFP®, PFS***

***Tarina Chase, CPA***

***Ann Singleton, CPA***

## **INDEPENDENT AUDITOR'S REPORT**

To the Honorable Mayor and City Council  
Farr West City  
Farr West, UT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Farr West City, Utah as of and for the year ended June 30, 2006, which collectively comprise the City's financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 2, 2006, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 7 and budgetary comparison information on pages 31 through 34 are not a required part of the financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Farr West City's basic financial statements. The schedule of impact fees described in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of impact fees has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

*Davis, Chase & Associates*

November 2, 2006

FARR WEST CITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDING JUNE 30, 2006

## INTRODUCTION

The following is a discussion and analysis of Farr West City's financial performance and activities for the fiscal year ending June 30, 2006.

## HIGHLIGHTS

Farr West City is one of the fastest growing cities in Weber County. The population for the city is nearing 5,000 residents. Through development, the City added a great deal of infrastructure: \$931,627 of sewer lines, \$1,669,108 of additional roads, \$1,102,057 of sidewalks, curb and gutter, and \$1,002,613 of storm drains.

The City spent \$140,651 improving existing storm drains and another \$195,923 maintaining roads.

Farr West City continued to improve recreation and park facilities. Programs and activities were expanded at the Recreation Center. \$42,095 was spent on new exercise equipment.

Two pieces of property were purchased adjacent to the main City Park at a cost of \$255,687. Two old houses were removed from the property which will now be used for additional parking. The parking has been a serious need.

Playground equipment was installed at the Civic Center Park. The cost of the equipment was \$24,520. The cost was \$17,160 to refinish the tennis court.

Development began on a new park near 3300 North. This park will be completed during the 2006-2007 budget year. The pedestrian bridge was installed on 3300 North over the Willard Canal. This bridge will provide access to the new park and additional walking and biking opportunities.

The City also contributed \$261,000 to the Capital Project Fund for future projects.

The assets of Farr West City exceeded its liabilities at the end of the current fiscal year by \$11,581,191 (net assets). Of this amount, \$677,947 (unrestricted net assets) is available to meet ongoing obligations to citizens and creditors.

Net assets increased by \$5,445,624. Of this amount, 4.7 percent is a result of business-type activities.

The City's Governmental funds reported combined ending fund balance of \$1,029,122, an increase of \$1,106,494 compared to the prior year's ending amount. Of the combined total fund balance, \$295,196 is available for spending at the discretion of the City (unreserved and undesignated fund balance.)

The unreserved and undesignated fund balance of the General Fund at June 30, 2006, totaling \$295,196 is 16.2 percent of the General Fund total revenues for the year. The General Fund, also has approximately \$342,891 of fund balance reserved for specific purposes that will be carried over into the following fiscal year.

During the year, total bonded debt for Farr West City decreased by \$52,000.

## Management's Discussion and Analysis

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the City's Basic Financial Statements. The Basic Financial Statements includes three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

The government-wide financial statements are comprised of the Statement of Net Assets, and the Statement of Activities. These two statements provide a broad overview of the City's finances. The Statement of Net Assets shows the overall net assets of the City. Increases and decreases in net assets are one indicator of the City's overall financial condition. The Statement of Activities helps to identify functions of the City that are principally supported by taxes and other general revenues (governmental activities) along with other functions that are intended to recover all or most of their costs through user fees and charges (business-type activities). Farr West's business type activity is sewer.

The fund financial statements provide detailed information about individual major funds and not the City as a whole. A fund is a group of related accounts that the City uses to keep track of specific resources that are segregated for a specific purpose. Some funds are required by law to exist, while others are established internally to maintain control over a particular activity. All of the City's funds are divided into two types. The two types are Governmental Funds and Proprietary Funds.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Farr West City has two Governmental Funds. The General Fund is the chief operating fund of the City. All of the City's activities are reported in the General Fund unless there is a compelling reason to report an activity in some other fund type. The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Farr West City has one Proprietary Fund. The Enterprise Fund may be used to report any activity for which a fee is charged to external users for goods or services. The Enterprise Fund is used to report the same functions presented as business-type activities in the government-wide financial statements. Farr West City has one Enterprise Fund to monitor the sewer system.

There are several differences between Government-Wide and Fund Statements. Capital assets and long-term debt are included on the government-wide statements, but are not reported on the governmental fund statements. Capital outlays result in capital assets on the government-wide statements, but are expenditures on the governmental fund statements. Certain tax revenues that are earned but not yet available are reported as revenue on the government-wide statements, but are deferred revenue on the governmental fund statements.

## Management's Discussion and Analysis

### FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

#### Net Assets

	Governmental Activities		Business-type Activities		Total	
	June 30 2006	June 30 2005	June 30 2006	June 30 2005	June 30 2006	June 30 2005
Current and other assets	\$1,279,718	\$1,117,719	\$ 328,391	\$1,751,269	\$ 1,608,109	\$2,868,988
Capital assets	8,004,899	3,929,853	2,584,419	954,820	10,589,318	4,884,673
Total assets	9,284,617	5,047,572	2,912,810	2,706,089	12,197,427	7,753,661
Long-term liabilities						
outstanding	3,907	-	366,000	420,000	369,907	420,000
Other liabilities	192,306	1,197,198	54,000	52,000	246,306	1,249,198
Total liabilities	196,213	1,197,198	420,000	472,000	616,213	1,669,198
Net assets:						
Invested in capital assets, net of related debt	8,004,899	3,929,853	1,420,331	482,820	9,425,230	4,412,673
Restricted	733,926	(432,317)	744,088	701,299	1,478,014	268,982
Unrestricted	349,556	352,838	328,391	1,049,970	677,947	1,402,808
Total net assets	\$9,088,381	\$3,850,374	\$2,492,810	\$2,234,089	\$ 11,581,191	\$6,084,463

The largest component of the City's net assets, 81.4 percent, reflects investments in capital assets (land, buildings, equipment, and sewer infrastructure) less all outstanding debt that was issued to buy or build those assets. As capital assets, these resources are not available for future spending, nor can they all be readily liquidated to pay off the related liabilities.

Restricted net assets comprise 12.8 percent of total net assets and are subject to external restrictions on how they may be used. The remaining 5.8 percent of net assets is unrestricted and may be used at the City's discretion to meet its ongoing obligations to citizens and creditors.

## Management's Discussion and Analysis

### Governmental Activities and Business Type Activities

#### Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	June 30 2006	June 30 2005	June 30 2006	June 30 2005	June 30 2006	June 30 2005
Revenues:						
Program revenues:						
Charges for services	\$ 657,207	\$ 941,366	\$ 275,642	\$ 252,478	\$ 932,849	\$1,193,844
Operating grants and contributions	156,111	125,442	-	217,825	156,111	343,267
Capital grants and contributions	3,971,126	201,360	1,123,052	-	5,094,178	201,360
General revenues:						
Property taxes	61,306	50,997	-	-	61,306	50,997
Other taxes	719,090	580,472	-	-	719,090	580,472
Grants and contributions not restricted to specific programs						
Other	41,513	20,720	37,012	40,318	78,525	61,038
Transfers	985,000	-	(985,000)	-	-	-
Total revenues	6,591,353	1,920,357	450,706	510,621	7,042,059	2,430,978
Expenses:						
General government	488,089	506,351	-	-	488,089	506,351
Public safety	251,875	237,343	-	-	251,875	237,343
Highways and public improvements	331,643	245,067	-	-	331,643	245,067
Sanitation	147,251	133,573	-	-	147,251	133,573
Parks and recreation	185,592	48,922	-	-	185,592	48,922
Sewer	-	-	191,985	154,335	191,985	154,335
Total expenses	1,404,450	1,171,256	191,985	154,335	1,596,435	1,325,591
Increase in net assets	5,186,903	749,101	258,721	356,286	5,445,624	1,105,387
Net assets-beginning	3,901,478	3,101,273	2,234,089	1,877,803	6,135,567	4,979,076
Net assets-ending	\$9,088,381	\$3,850,374	\$2,492,810	\$2,234,089	\$11,581,191	\$6,084,463

#### Governmental Activities

The activities in the governmental funds resulted in an increase in net assets of \$5,186,903 for the year.

#### Business-Type Activities

The business-type activities increased net assets by \$258,721. The sewer enterprise fund is generating sufficient revenue to cover operating costs.

## Management's Discussion and Analysis

### FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

#### Capital Assets

Farr West City added \$4,350,187 in new capital assets in governmental activities during the fiscal year. The following major assets were acquired or constructed: Land \$255,687; Infrastructure \$3,773,778; Improvements \$218,799; and Equipment \$101,923.

#### Fund Balances

The fund balance in the General Fund was decreased by \$(92,546). The fund balance in the Sewer Enterprise Fund was increased by \$258,721.

During the fiscal year, the fund balance in the Capital Projects Fund increased \$1,199,040. Expenditures during the year were used for the pedestrian bridge and the sign at the Civic Center. A total of \$53,874 was spent on the projects during the fiscal year. Funds were transferred into the Capital Projects Fund from the Sewer Fund (\$985,000) and the General Fund (\$261,000).

#### Long-Term Debt

The City currently owes \$420,000 for Revenue Bonds. The proceeds from the bonds were used to finance the City's sewer infrastructure. \$54,000 of the debt will be paid in the current year with \$366,000 remaining in long-term debt.

#### General Fund Budgets

Farr West City prepares its budget according to state statutes. The General Fund was adjusted during the year to meet the needs of growth in the City.

Actual General Fund revenues were \$145,398 above the original budget and \$5,398 above the final adjusted budget. Actual General Fund expenses before transfers were \$133,056 below the original budget and \$243,056 below the final adjusted budget.

#### ADDITIONAL INFORMATION

Residential building should continue to provide revenue to the City for several years. With the rapid growth in Farr West a time will come when this revenue source will drop off considerably. The City has good opportunities for commercial growth.

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of Farr West City's finances and to demonstrate the City's accountability for the money it receives. Questions concerning any of the information provided in this report or any other matters related to the City's finances should be addressed to Farr West City Recorder, 1896 North 1800 West, Farr West, Utah 84404.

John E. Cardon  
Treasurer

FARR WEST CITY  
STATEMENT OF NET ASSETS  
JUNE 30, 2006

	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	
<b>ASSETS</b>			
Cash and cash equivalents	\$ 287,331	\$ 272,585	\$ 559,916
Restricted cash	733,926	744,088	1,478,014
Accounts receivable	30,770	55,806	86,576
Due from other governmental units	226,729	-	226,729
Deposits and prepaid expenses	962	-	962
Capital assets (net of accumulated depreciation):			
Land	696,046	-	696,046
Buildings	2,624,114	-	2,624,114
Improvements	4,445,875	1,829,638	6,275,513
Machinery and equipment	238,864	10,693	249,557
<b>TOTAL ASSETS</b>	<b>9,284,617</b>	<b>2,912,810</b>	<b>12,197,427</b>
<b>LIABILITIES</b>			
Accounts payable	146,100	-	146,100
Accrued liabilities	6,790	-	6,790
Deferred revenue	39,439	-	39,439
Non-current liabilities:			
Bonds payable - Due within one year	-	54,000	54,000
Bonds payable - Due in more than one year	3,907	366,000	369,907
<b>TOTAL LIABILITIES</b>	<b>196,236</b>	<b>420,000</b>	<b>616,236</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	8,004,899	1,420,331	9,425,230
Restricted for:			
Capital projects	391,035	-	391,035
Storm sewer	342,891	-	342,891
Sewer expansion	-	607,938	607,938
Bond reserves	-	136,150	136,150
Unrestricted	349,556	328,391	677,947
<b>TOTAL NET ASSETS</b>	<b>\$ 9,088,381</b>	<b>\$ 2,492,810</b>	<b>\$ 11,581,191</b>

The accompanying notes are an integral part of these statements.

# FARR WEST CITY

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006

### Net (Expense) Revenue and Changes in Net Assets

	Program Revenues			Primary Government		
	Charges for	Operating	Capital	Governmental	Business-type	Total
	Expenses	Services	Contributions	Contributions	Activities	Activities
<b>FUNCTIONS/PROGRAMS</b>						
<b>PRIMARY GOVERNMENT:</b>						
Governmental activities:						
General government	\$ 488,089	\$ 287,046	\$ -	\$ (201,043)	\$ -	\$ (201,043)
Public safety	251,875	90,828	3,319	(157,728)	-	(157,728)
Highways and public improvements	331,643	75,226	152,792	3,761,501	-	3,761,501
Sanitation	147,251	169,597	-	22,346	-	22,346
Parks and recreation	185,592	34,510	-	(45,082)	-	(45,082)
Total governmental activities	1,404,450	657,207	156,111	3,379,994	-	3,379,994
Business-type activities:						
Sewer	191,985	275,642	-	-	1,206,709	1,206,709
Total business-type activities	191,985	275,642	-	-	1,206,709	1,206,709
Total primary government	\$ 1,596,435	\$ 932,849	\$ 156,111	\$ 3,379,994	\$ 1,206,709	\$ 4,586,703
General revenues:						
Property taxes				61,306	-	61,306
Sales taxes				702,242	-	702,242
Franchise taxes				8,148	-	8,148
Fees-in-lieu of taxes				8,700	-	8,700
Miscellaneous				41,513	37,012	78,525
Transfers				985,000	(985,000)	-
Total general revenues and transfers				1,806,909	(947,988)	858,921
Change in net assets				5,186,903	258,721	5,445,624
Net assets - beginning				3,901,478	2,234,089	6,135,567
Net assets - ending				\$ 9,088,381	\$ 2,492,810	\$ 11,581,191

The accompanying notes are an integral part of these statements.

FARR WEST CITY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash & cash equivalents	\$ 287,331	\$ -	\$ 287,331
Restricted cash	342,891	391,035	733,926
Accounts receivable	30,770	-	30,770
Due from other governmental units	226,729	-	226,729
Deposits & prepaid expenses	962	-	962
<b>Total assets</b>	<u><u>\$ 888,683</u></u>	<u><u>\$ 391,035</u></u>	<u><u>\$1,279,718</u></u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 146,100	\$ -	\$ 146,100
Accrued liabilities	46,229	-	46,229
Deferred revenues	58,267	-	58,267
<b>Total liabilities</b>	<u><u>250,596</u></u>	<u><u>-</u></u>	<u><u>250,596</u></u>
Fund balances:			
Reserved for:			
Storm sewer	342,891	-	342,891
Capital projects	-	391,035	391,035
Unreserved, reported in:			
General fund	295,196	-	295,196
<b>Total fund balances</b>	<u><u>638,087</u></u>	<u><u>391,035</u></u>	<u><u>1,029,122</u></u>
<b>Total liabilities and fund balances</b>	<u><u>\$ 888,683</u></u>	<u><u>\$ 391,035</u></u>	<u><u>\$1,279,718</u></u>

The accompanying notes are an integral part of these statements.

FARR WEST CITY  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2006

Total fund balances - governmental funds: \$ 1,029,122

Amounts reported for governmental activities in the Statement of  
Net Assets are different because:

Capital assets used in governmental activities are not  
financial resources and, therefore, are not reported  
in the funds.

Land	\$ 696,046
Buildings	2,796,516
Improvements	4,664,949
Machinery and equipment	559,794
Accumulated depreciation	<u>(712,406)</u>

8,004,899

Earned and unavailable revenue is shown as a liability  
until available in the funds.

58,267

Long-term liabilities, including compensated absences are not  
due and payable in the current period and therefore are not  
reported in the governmental funds, but they are reported  
in the Statement of Net Assets

Compensated absences

(3,907)

Net assets of governmental activities

\$ 9,088,381

The accompanying notes are an integral part of these statements.

FARR WEST CITY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2006

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Taxes:			
Sales taxes	\$ 702,242	\$ -	\$ 702,242
Property taxes	54,143	-	54,143
Franchise taxes	8,148	-	8,148
Fees-in-lieu of taxes	8,700	-	8,700
Licenses and permits	276,506	-	276,506
Intergovernmental	194,111	-	194,111
Charges for services	289,874	-	289,874
Fines and forfeitures	90,828	-	90,828
Miscellaneous revenue	193,946	6,914	200,860
Total revenues	<u>1,818,498</u>	<u>6,914</u>	<u>1,825,412</u>
<b>EXPENDITURES</b>			
Current:			
General government	811,244	-	811,244
Public safety	243,620	-	243,620
Highways and public improvements	218,419	-	218,419
Sanitation	147,251	-	147,251
Parks and recreation	229,510	-	229,510
Capital outlay	-	53,874	53,874
Total expenditures	<u>1,650,044</u>	<u>53,874</u>	<u>1,703,918</u>
Excess (deficiency) of revenues over expenditures	<u>168,454</u>	<u>(46,960)</u>	<u>121,494</u>
<b>Other financing sources (uses)</b>			
Transfers in	-	1,246,000	1,246,000
Transfers out	(261,000)	-	(261,000)
Total other financing sources and uses	<u>(261,000)</u>	<u>1,246,000</u>	<u>985,000</u>
Net change in fund balances	(92,546)	1,199,040	1,106,494
Fund balances - beginning of year	<u>730,633</u>	<u>(808,005)</u>	<u>(77,372)</u>
Fund balances - end of year	<u>\$ 638,087</u>	<u>\$ 391,035</u>	<u>\$1,029,122</u>

The accompanying notes are an integral part of these statements.

FARR WEST CITY  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE  
 STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2006

Amounts reported for governmental activities in the Statement of  
 Activities are different because:

Net changes in fund balances - total governmental funds	\$ 1,106,494
---	--------------

Governmental funds report capital outlays as expenditures.

However, in the Statement of Activities the cost of those assets  
 is allocated over their estimated useful lives and reported as  
 depreciation expense. This is the amount by which capital  
 outlays exceeded depreciation in the current period.

Land	\$ 255,687	
Improvements	218,799	
Machinery and equipment	101,923	
Depreciation expense	<u>(149,348)</u>	
		427,061

Donations of capital assets increase Net Assets in the  
 Statement of Activities, but do not appear in the governmental  
 funds because they are not financial resources.

Infrastructure	3,773,778	
Depreciation expense	<u>(125,793)</u>	
		3,647,985

Revenues in the Statement of Activities that do not provide  
 current financial resources are not reported as revenues  
 in funds.

Property taxes assessed in January are considered earned  
 revenue for the government-wide financial statements, while  
 governmental funds do not consider it as revenue until  
 available to provide current resources.

2006 property tax assessment	58,267	
2005 property tax assessment	<u>(51,104)</u>	
		7,163

Some expenses reported in the statement of activities do not  
 require the use of current financial resources and, therefore  
 are not reported as expenditures in the governmental funds.

Compensated absences	<u>(1,800)</u>
----------------------	----------------

Change in net assets of governmental activities	<u><u>\$ 5,186,903</u></u>
---	----------------------------

The accompanying notes are an integral part of these statements.

FARR WEST CITY  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2006

	<u>Sewer Fund</u>
<b><u>ASSETS</u></b>	
Current assets:	
Cash	\$ 272,585
Accounts receivable	55,806
Total current assets	<u>328,391</u>
Noncurrent assets:	
Restricted cash	744,088
Fixed assets	2,252,298
Less: Accumulated depreciation	<u>(411,967)</u>
Total noncurrent assets	<u>2,584,419</u>
Total assets	<u>2,912,810</u>
<b><u>LIABILITIES</u></b>	
Current liabilities:	
Bonds payable	54,000
Total current liabilities	<u>54,000</u>
Noncurrent liabilities:	
Bonds payable	366,000
Total noncurrent liabilities	<u>366,000</u>
Total liabilities	<u>420,000</u>
<b><u>NET ASSETS</u></b>	
Invested in capital assets, net of related debt	1,420,331
Restricted - Bond reserves	136,150
Restricted - Sewer expansion	607,938
Unrestricted	328,391
Total net assets	<u>\$ 2,492,810</u>

The accompanying notes are an integral part of these statements.

FARR WEST CITY  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Sewer Fund</u>
Operating revenues:	
Charges for services	\$ 275,642
Impact fees	<u>191,425</u>
Total operating revenues	<u>467,067</u>
Operating expenses:	
Contractual service	89,134
Administrative	24,206
Maintenance	9,225
Depreciation	<u>46,115</u>
Total operating expenses	<u>168,680</u>
Operating income	<u>298,387</u>
Nonoperating revenues (expenses):	
Interest revenue	37,012
Interest expense	<u>(23,305)</u>
Total nonoperating revenues (expenses)	<u>13,707</u>
Income (loss) before contributions and transfers	312,094
Capital contributions	931,627
Transfers out	<u>(985,000)</u>
Change in net assets	258,721
Total net assets - beginning	<u>2,234,089</u>
Total net assets - ending	<u><u>\$ 2,492,810</u></u>

The accompanying notes are an integral part of these statements.

FARR WEST CITY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Sewer Fund</u>
<b>Cash Flows From Operating Activities</b>	
Receipts from customers	\$ 276,119
Payments to suppliers	(98,565)
Payments for interfund services used	(24,000)
Receipts for impact fees	191,425
	<hr/>
Net cash provided (used) by operating activities	344,979
	<hr/>
<b>Cash Flows From Capital and Related Financing Activities</b>	
Principal paid on capital debt	(52,000)
Interest paid on capital debt	(23,305)
	<hr/>
Net cash provided (used) by capital and related financing activities	(75,305)
	<hr/>
<b>Cash Flows From Investing Activities</b>	
Interest and dividends received	37,013
	<hr/>
Net cash provided (used) by investing activities	37,013
	<hr/>
Net increase (decrease) in cash and cash equivalents	306,687
Cash and cash equivalents, July 1	709,986
	<hr/>
Cash and cash equivalents, June 30	\$ 1,016,673
	<hr/>

The accompanying notes are an integral part of these statements.

FARR WEST CITY  
STATEMENT OF CASH FLOWS (CONTINUED)  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Sewer Fund</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>	
Operating income	\$ 298,387
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	46,115
(Increase) decrease in accounts receivable	477
Total adjustments	46,592
Net cash provided (used) by operating activities	\$ 344,979
Noncash investing, capital and financing activities:	
Contributed capital assets from developers	\$ 931,627

The accompanying notes are an integral part of these statements.

FARR WEST CITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Farr West City, Utah conform in all material respects to generally accepted accounting principles (GAAP) as applicable to governments. The City has adopted the provisions of the Governmental Accounting Standards Board (GASB). Preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements.

The following is a summary of the more significant policies and is presented to assist the reader in interpreting the financial statements and other data in this report. These policies, as presented, should be viewed as an integral part of the accompanying financial statements.

**A. Reporting Entity**

Farr West City was incorporated November 10, 1980, in the State of Utah. The City operates under a Council/Mayor form of government and provides the following services as authorized by its charter: Public safety (police and fire), public utilities (sewer), sanitation, highways and streets, social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The criteria set forth by generally accepted accounting principles (GAAP) was used to determine which entities to include in this report. GASB Concepts Statement-1 (Objectives of Financial Reporting) concludes that the basic foundation for governmental financial reporting is accountability. The Concepts Statement asserts that accountability requires governments to answer to the citizenry - to justify the raising of public resources and the purposes for which they are used. In turn, the concept of accountability becomes the basis for defining the financial reporting entity. Under GASB-14 (The Financial Reporting Entity) the financial reporting entity consists of the following:

1. The primary government
2. Organizations for which the primary government is financially accountable
3. Other organizations that, because of the nature and significance of their relationship with the primary government, exclusion from the reporting entity would render the financial statements misleading or incomplete.

Blended component units, although legally separate entities, are in substance part of the government's operations. They are reported as part of the primary government and blended with the appropriate funds. The City has no component units.

**B. Government-wide and Fund Financial Statements**

The City's basic financial statements consist of both government-wide statements and fund statements. The government-wide statements focus on the City as a whole, while the fund statements focus on individual funds.

FARR WEST CITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2006

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Government-wide Financial Statements***

The government-wide statements present information on all non-fiduciary activities of the primary government. Primary government activities are distinguished between *governmental* and *business-type* activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The *Statement of Net Assets* presents the City's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are restricted when constraints placed upon them are either externally imposed or are imposed by constitutional provisions or enabling legislation. The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. The City does not allocate general government (indirect) expenses to other functions. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other revenues not meeting the definition of program revenues are reported as general revenues.

***Fund Financial Statements***

The financial transactions of the City are recorded in individual funds. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is used to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. Statements are provided for *governmental funds* and for *proprietary funds*. For governmental and proprietary funds, the emphasis is on *major funds*, with each displayed in a separate column.

The City reports the following major governmental funds:

**General Fund -** This fund is the principal operating fund of the City. It is used to account for all financial resources not required to be accounted for in another fund.

**Capital Projects Fund -** This fund accounts for financial resources to be used for the construction of major capital projects.

The City reports the following major proprietary fund:

**Sewer Fund -** The sewer fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

FARR WEST CITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2006

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Measurement Focus and Basis of Accounting**

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the related liability is incurred, regardless of the timing of the cash flows. Taxes and fees are recognized in the year in which the related sales or other activity has occurred. Grants and similar items are recognized as revenue when all eligibility requirements have been met.

The governmental fund financial statements are prepared and reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Expenditures are generally recorded when the related liability is incurred.

Proprietary funds separate operating and non-operating revenues and expenses. Operating revenues and expenses normally arise from providing goods and services in connection with the fund's normal ongoing operations. The principal sources of operating revenues for the proprietary funds are charges to customers for goods and services. Operating expenses include the cost of sales and services, administrative overhead expenses and depreciation on capital assets. All other revenues or expenses are recorded as non-operating.

The City has adopted GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*. Accordingly, the City has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Consequently, the City does not apply FASB pronouncements issued after November 30, 1989.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments to the General Fund by various enterprise funds for providing administrative and billing services for such funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

**D. Assets, Liabilities, and Fund Balances/Net Assets**

The following are the City's significant policies regarding recognition and reporting of certain assets, liabilities, and equity.

***Pooled Cash and Temporary Investments***

Unrestricted and restricted cash balances of both funds are combined to form a pool of cash which is managed by the City Treasurer. Utah State Statutes allow for investments in the Utah Public Treasurer's Investment Fund and Utah Money Management Act (UMMA) approved financial institutions. The UMMA provides for a committee to evaluate financial institutions and provide a list of those qualified as depositories for public funds, including the amount they are authorized to maintain over and above insured amounts. The City Treasurer invests unrestricted and restricted cash with the Utah Public Treasurer's Investment Fund and with local financial institutions. Investments in the pooled cash fund consist primarily of certificates of deposit, repurchase agreements, and time deposits and are carried at cost which approximates market value. Interest income earned as a result of pooling is distributed to the appropriate funds based on month end balances of cash. The City considers all highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

FARR WEST CITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2006

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Liabilities, and Fund Balances/Net Assets (Continued)**

***Inventories***

No significant inventories are maintained by the City, therefore none are reflected in these statements.

***Restricted Assets***

Certain resources set aside as reserves in accordance with council resolutions and State statutes are classified as restricted assets on the balance sheet because their use is limited.

***Capital Assets***

General capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds. Capital assets are reported in the governmental column in the government-wide financial statements. All purchased fixed assets are valued at cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Capital assets are defined as assets with an initial, individual cost of more than \$5,000.

Infrastructure capital assets which are newly constructed are capitalized.

Capital assets are depreciated. Depreciation of buildings, improvements, infrastructure, and equipment is computed using the straight-line method.

Depreciation of all exhaustible capital assets is charged as an expense in the related program. Accumulated depreciation is reported on the Statement of Net Assets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	30-50 years
Improvements	10-50 years
Equipment	5-10 years
Infrastructure	25-40 years

***Long-term Obligations***

In the government-wide statements, long-term debt obligations are reported as liabilities.

The face amount of debt issued is reported as other financing sources in the governmental fund financial statements.

***Net Assets/Fund Balances***

The difference between assets and liabilities is *net assets* on the government-wide statements, and *fund balance* on the governmental fund statements.

In the governmental fund statements, fund balances are classified as reserved or unreserved. Reserves represent those portions of fund balance that are not available for expenditures or are legally segregated for a specific future use. Unreserved fund balances are available for future appropriation, though some portions may be designated to represent management's tentative plans for specific future uses.

FARR WEST CITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2006

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. Revenues and Expenditures**

The following are the City's significant policies related to recognition and reporting of certain revenues, expenditures, and interfund activity.

***Revenue Availability***

Under the modified accrual basis of accounting, revenues are considered to be "available" when they are collected within the current period or expected to be collected soon enough thereafter to pay liabilities of the current period. The City considers property tax revenues to be available if they are collected within 60 days after the end of the current year. Grants and similar items are recognized as revenue when all eligibility requirements have been met. All other revenues, including sales taxes, are considered to be available if they are collected within 60 days after year-end.

Statement of Governmental Accounting Standards (SGAS) No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, defines a non-exchange transaction as one in which "a government either gives value to another party without directly receiving equal value in exchange or receives value from another party without directly giving equal value in exchange." For property taxes, at January 1 of each year (the assessment date), the City has the legal right to collect the taxes, and in accordance with the provisions of the new statement, has now recorded a receivable and a corresponding deferred revenue for the assessed amount of those property taxes as of January 1, 2006.

***Expenditure Recognition***

In governmental funds, expenditures are generally recorded when the related liability is incurred. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due. Capital asset acquisitions are reported as expenditures, and proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

When an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, the City generally uses restricted resources first, then unrestricted resources.

**F. Budgets and Budgetary Accounting**

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for both funds. All annual appropriations lapse at the fiscal year end. Project-length financial plans are adopted for capital projects funds. Encumbrance accounting is not used by the City.

**Summary of City Budget Procedures and Calendar**

1. The City Council can amend the budget to any extent, provided the budgeted expenditures do not exceed budgeted revenues and appropriated fund balance.
2. Budgets are required by the State of Utah for both the General and Capital Project Funds.

FARR WEST CITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2006

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**F. Budgets and Budgetary Accounting (Continued)**

Summary of City Budget Procedures and Calendar (Continued)

3. Each year the City publishes a separate budget document prepared according to this legal level of control.
4. The City's budget is a Financial Plan of all estimated revenues and all appropriations for expenditures. Revenues and Expenditures must balance for the funds required by the State Code as indicated in item 2 above.
5. A tentative budget is presented by the Mayor to the City Council by the first regularly scheduled council meeting in May. The tentative budget is reviewed and tentatively adopted by the Council no later than June 22.
6. The tentative budget is a public record and is available for inspection at the City offices for at least ten days prior to adoption of the final budget.
7. Notice of public hearing on adoption of the final budget is published seven days prior to the public hearing.
8. The public hearing on the tentatively adopted budget is held no later than June 22. Final adjustments are made to the tentative budget by the Council after the public hearing.
9. Occasionally the City Council will exercise their option to open the budget to indicate additional financing sources that become available.
10. The final budget is adopted by ordinance before June 22 and a copy of the budget certified by the Budget Officer is filed with the State Auditor within thirty days of adoption.
11. In connection with budget adoption:
  - a. An annual tax ordinance establishing the property tax rate is adopted before June 22.
  - b. The City Treasurer is to certify the property tax rate to the County Auditor before June 22.
12. Budgets for the General and Capital Projects Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

**Summary of Action Required for Budget Changes:**

The Council may, by resolution, transfer unexpended appropriations from one department to another department within the same fund. The budget appropriation for any department may be reduced by resolution.

Fund budgets may be increased by resolution after a public hearing.

**Current Year Excess of Expenditures Over Appropriations:**

For the year ended June 30, 2006, expenditures did not exceed appropriations in either fund.

**G. Contributions**

Certain proprietary fund types receive contribution for aid in construction from various sources. With the adoption of GASB No. 33, these contributions that were formerly credited directly to contributed capital accounts are now reflected as non-operating revenue.

FARR WEST CITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2006

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**H. Compensated Absences**

City policy provides for vested or accumulated vacation leave.

**I. Use of Estimates**

The preparation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**J. Restricted Resources**

The City's policy is to use restricted resources first to fund appropriations when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**NOTE 2 - DEPOSITS AND INVESTMENTS**

**A. Deposits**

The City's deposits are carried at cost.

At June 30, 2006, the carrying amount of the City's deposits was \$363,309 and the bank balance was \$419,532. Of the bank balance, \$100,000 was covered by federal depository insurance. The remaining \$319,532 balance was uninsured and uncollateralized.

**B. Investments**

At year-end investments consist of funds in the Utah Public Treasurer's Investment Fund. This investment is administered by the State of Utah and is regulated by the Money Management Council under provisions of the Utah State Money Management Act. The investment is not categorized as to credit risk because it does not represent a security that exists in physical or book entry form. Investments are carried at cost which approximates their fair value.

Investments not subject to categorizations:

	Carrying Amount	Market Value
Utah Public Treasurer's Investment Fund	\$ 1,674,619	\$ 1,674,083

**C. Summary**

	Carrying Amount
Petty cash and returned checks	\$ 102
Deposits	363,209
Investment in Utah Public Treasurer's Investment Fund	1,674,619
Total deposits and investments	\$ 2,037,930
Equity in pooled cash and investments	\$ 559,916
Restricted cash - sewer fund	744,088
Restricted cash - capital projects	391,035
Restricted cash - general fund	342,891
Total deposits and investments	\$ 2,037,930

FARR WEST CITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2006

**NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)**

*Deposit and Investment Risk Disclosure.* Deposits and investments for Farr West City are governed by the Utah Money management Act (Utah Code Annotated, Title 51, Chapter 7, "the Act") and by rules of the Utah Money Management Council ("the Council"). Following are discussions of the City's exposure to various risks related to its cash management activities.

*Custodial credit risk - deposits.* Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be recovered. The City's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of City funds to be in a *qualified depository*, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commission of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

The City's deposits in the bank in excess of the insured amount are uninsured and are not collateralized, nor do state statutes require them to be. The City's deposits at June 30, 2006 were \$419,532, of which \$100,000 was insured under federal depository insurance.

*Custodial credit risk - investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. The City's policy for limiting credit risk for investments is to comply with the Money Management Act. The City is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized basis. The income, gains and losses, net of administrative fees, of the PTIF are allocated based upon the participant's average daily balance. The PTIF pool has not been rated.

*Credit risk.* Credit risk is the risk that the counterparty to an investment transaction will not fulfill its obligations. The City's policy for limiting the credit risk of investments is to comply with the Money Management Act. The Act requires investment transactions to be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities. Permitted investments include deposits of qualified depositories; repurchase agreements; commercial paper that is classified as "first-tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poors; bankers acceptances; obligations of the U.S. Treasury and U.S. government sponsored enterprises; bonds and notes of political subdivisions of the State of Utah; fixed rate corporate obligations and variable rate securities rated "A" or higher by two nationally recognized statistical rating organizations; and shares in a money market fund as defined in the Act.

*Interest rate risk.* Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The City manages its exposure by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

*Concentration of credit risk.* The City's investment in the Utah Public Treasurer's Investment Fund has no concentration of credit risk.

FARR WEST CITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2006

**NOTE 3 - CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2006, was as follows:

	Balance June 30, 2005	Additions	(Deletions)	Balance June 30, 2006
<b><u>PRIMARY GOVERNMENT</u></b>				
<b>GOVERNMENTAL ACTIVITIES</b>				
Nondepreciated Assets				
Land	\$ 440,359	\$ 255,687	\$ -	\$ 696,046
Total nondepreciated assets	440,359	255,687	-	696,046
Depreciated Assets				
Improvements-nonbuilding	672,372	3,992,577	-	4,664,949
Machinery and equipment	252,524	101,923	-	354,447
Buildings	2,796,516	-	-	2,796,516
Autos	205,347	-	-	205,347
Total depreciated assets	3,926,759	4,094,500	-	8,021,259
Less accumulated depreciation				
Buildings	(113,832)	(58,570)	-	(172,402)
Machinery and equipment	(259,022)	(61,908)	-	(320,930)
Improvements	(64,411)	(154,663)	-	(219,074)
Total	(437,265)	(275,141)	-	(712,406)
Net assets depreciated	3,489,494	3,819,359	-	7,308,853
Governmental activities capital assets, net	<u>\$ 3,929,853</u>	<u>\$ 4,075,046</u>	<u>\$ -</u>	<u>\$ 8,004,899</u>
	Balance June 30, 2005	Additions	(Deletions)	Balance June 30, 2006
<b>BUSINESS-TYPE ACTIVITIES</b>				
Depreciated Assets				
Sewer system	\$ 1,307,304	\$ 931,627	\$ -	\$ 2,238,931
Machinery and equipment	13,367	-	-	13,367
Total depreciated assets	1,320,671	931,627	-	2,252,298
Less accumulated depreciation				
Sewer system	(364,515)	(44,779)	-	(409,294)
Machinery and equipment	(1,337)	(1,337)	-	(2,674)
Total	(365,852)	(46,116)	-	(411,968)
Business-type activities capital assets, net	<u>\$ 954,819</u>	<u>\$ 885,511</u>	<u>\$ -</u>	<u>\$ 1,840,330</u>

FARR WEST CITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2006

**NOTE 3 - CAPITAL ASSETS (CONTINUED)**

**DEPRECIATION EXPENSE**

	Governmental Types	Business Types	Totals
General government	\$ 71,383	\$ -	\$ 71,383
Highways and public improvements	155,645	-	155,645
Parks	39,858	-	39,858
Public safety	8,255	-	8,255
Sewer	-	46,116	46,116
TOTAL	<u>\$ 275,141</u>	<u>\$ 46,116</u>	<u>\$ 321,257</u>

**NOTE 4 - REVENUE BOND RESERVES**

The required bond reserve account balances at June 30, 2006, were as follows:

1992 Sewer revenue bond	
Bond redemption account	\$ 33,850
Bond reserve fund	68,200
Repair and replacement	34,100
	<u>\$ 136,150</u>

The 1992 Sewer Revenue Bond ordinance requires monthly amounts to be set aside as follows:

**Sewer Revenue Bond Redemption Account**

Beginning in May 1992 and continuing each month, the City is required to reserve one-twelfth (1/12) of the annual principal and interest payment due on the sewer revenue bond. The reserve is then used to make the annual payment.

**Sewer Revenue Bond Reserve Account**

Beginning in May 1992 and continuing each month, the City is required to reserve \$947 until such time as the aggregate reserve shall equal \$68,200. The reserve shall be used to fund the sewer revenue bond redemption fund in the event it is in a deficit position.

**Emergency Repair and Replacement Account**

Beginning in May 1992 and continuing each month, the City is required to reserve \$474 until such time as the aggregate reserve equals \$34,100. The reserve shall be used to make such emergency repairs of, or replacements to the system to insure its continued operation.

FARR WEST CITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2006

**NOTE 5 - RESERVATIONS OF FUND BALANCE/RETAINED EARNINGS**

Reserved for Storm Sewer - This represents storm sewer fees collected and restricted for storm sewer improvements.

Reserved for Capital Projects - The City is setting aside funds in a reserve for major capital improvements.

Reserved for Revenue Bond Accounts - This represents required reserve accounts set up under revenue bond ordinances.

Reserved for Sewer Expansion - This represents sewer impact fees collected and restricted for sewer capital improvements.

**NOTE 6 - LONG-TERM DEBT**

Long-term debt in the enterprise funds as of June 30, 2006, is comprised of the following:

Description	Interest Rate	Outstanding 6/30/05	Additions	Payments	Outstanding 6/30/06	Current Portion
Sewer utility fund:						
1970 \$90,000 sewer revenue bond	4.5%	\$ 22,000	\$ -	\$ (4,000)	\$ 18,000	\$ 4,000
1970 \$50,000 G.O. sewer bond	4.5%	10,000	-	(2,000)	8,000	2,000
1992 \$850,000 sewer revenue bond	5.0%	440,000	-	(46,000)	394,000	48,000
		<u>\$ 472,000</u>	<u>\$ -</u>	<u>\$ (52,000)</u>	<u>\$ 420,000</u>	<u>\$ 54,000</u>

Annual requirements to amortize long-term debt as of June 30, 2006:

Sewer utility fund:

June 30,	Principal	Interest	Total
2007	54,000	20,870	74,870
2008	57,000	18,200	75,200
2009	60,000	15,380	75,380
2010	63,000	12,415	75,415
2011	59,000	9,300	68,300
Thereafter	127,000	9,300	136,300
	<u>\$ 420,000</u>	<u>\$ 85,465</u>	<u>\$ 505,465</u>

FARR WEST CITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2006

**NOTE 7 - COMPENSATED ABSENCES**

Balance outstanding - July 1, 2005	\$ 2,107
Additions (deletions)	<u>1,800</u>
Balance outstanding - June 30, 2006	<u><u>\$ 3,907</u></u>

**NOTE 8 - RISK MANAGEMENT**

Farr West City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance and participate in a public entity risk pool – the Utah Government Trust. The City maintains comprehensive insurance coverage in aggregate amounts sufficient to protect against all reasonably foreseeable liability risks. Specific liability policies purchased include automobile, general liability, property bond (employee dishonesty), treasurer, public officials and officers, excess liability, and workman's compensation. As of June 30, 2006, there is no anticipation of unpaid claims. Therefore, a liability is not accrued. Settlement amounts have not exceeded coverage for the current year or the three prior years.

**NOTE 9 - PENSION PLANS AND RETIREMENT BENEFITS**

**Local Governmental - Cost Sharing**

**Plan Description.** Farr West City contributes to the Local Governmental Noncontributory Retirement System, which is a cost-sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems. Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes general-purpose financial statements and required supplementary information for the Local Governmental Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South Salt Lake City, UT 84102 or by calling 1-800-365-8772.

**Funding Policy.** In the Local Governmental Noncontributory Retirement System, Farr West City is required to contribute for the period of July 2005 - June 2006, 11.09% of their annual covered salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

Farr West City contributions to the Local Governmental Noncontributory Retirement System for 2006, 2005, and 2004 were \$19,716, \$18,871, and \$15,958, respectively. The contributions were equal to the required contributions for each year.

**NOTE 10 - POST-EMPLOYMENT BENEFITS**

Farr West City provides no post-employment benefits for employees, other than COBRA requirements.

FARR WEST CITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2006

**NOTE 11 - DEFERRED REVENUE**

Deferred revenues are resource inflows that do not yet meet the criteria for revenue recognition. The City follows GASB Statement #33 which reports property taxes currently receivable to be used in the following fiscal year as deferred revenue.

**NOTE 12 - INTEREST EXPENSE**

The Proprietary Fund incurred \$23,305 in interest expense of which \$23,305 was charged to expense and \$0 was capitalized.

**NOTE 13 - INTER-FUND TRANSFERS**

During the year ended June 30, 2006, budgeted interfund operating transfers were as follows:

Transfer from Sewer Fund to Capital Projects Fund	\$ 985,000
Transfer to Capital Projects Fund from Sewer Fund	(985,000)
Transfer from General Fund to Capital Projects Fund	261,000
Transfer to Capital Projects Fund from General Fund	(261,000)
	<u>\$ -</u>

**NOTE 14- PROPERTY TAX CALENDAR**

Lien date	Jan. 1
Taxing entity notifies the county of date, time, and place of public hearing	Mar. 1
Budget officer of the entity prepares and files with the city council a tentative budget for the next fiscal year	1st scheduled council meeting in May
County auditor sends valuation certified tax rate and levy worksheets to each taxing entity	Jun. 8
Taxing entity must adopt a proposed tax rate, certify the rate and levy, and submit to the county auditor	Before Jun. 22
Taxing entity adopts a final tax rate if there is no increase in certified tax rate	Jun. 22
Taxing entity adopts final budget if there is no increase in certified tax rate	Jun. 22
Copy of the budget is submitted to state auditor within 30 days of adoption	
Payment and delinquency date	Nov. 30

**FARR WEST CITY  
REQUIRED SUPPLEMENTAL  
INFORMATION**

**JUNE 30, 2006**

FARR WEST CITY  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES TO FUND BALANCES -  
BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>			<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Favorable</u> <u>(Unfavorable)</u>
<u>Revenues</u>				
Taxes:				
Property taxes	\$ 51,104	\$ 51,104	\$ 52,639	\$ 1,535
Fee in lieu	8,000	8,000	8,700	700
Redemptions	2,000	2,000	1,504	(496)
Sales tax	573,896	663,896	702,242	38,346
Franchise tax	7,000	7,000	8,148	1,148
Total taxes	642,000	732,000	773,233	41,233
Licenses and permits:				
Business licenses & permits	11,800	11,800	13,400	1,600
Building permits	202,000	202,000	181,555	(20,445)
Plan check fees	100,000	100,000	81,551	(18,449)
Total licenses and permits	313,800	313,800	276,506	(37,294)
Intergovernmental:				
Class "C" roads	120,000	140,000	152,792	12,792
State liquor allotment	2,500	2,500	3,319	819
Grants	37,000	37,000	38,000	1,000
Total intergovernmental	159,500	179,500	194,111	14,611
Charges for services:				
Chip and seal carryover	60,000	60,000	51,226	(8,774)
Sewer administration	24,000	24,000	24,000	-
Planning & zoning fees	2,000	2,000	6,577	4,577
Park fees	1,000	1,000	1,144	144
Senior center rental	5,000	5,000	3,135	(1,865)
Refuse collection charges	150,000	150,000	154,758	4,758
Garbage container sales	14,000	14,000	14,840	840
Recreation fees	5,000	5,000	4,224	(776)
Street light charges	800	800	828	28
Recreation center fees	10,000	30,000	29,142	(858)
Total charges for services	271,800	291,800	289,874	(1,926)
Fines and forfeitures	86,000	96,000	90,828	(5,172)

FARR WEST CITY  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL (CONTINUED)  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>			<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Favorable</u>
<u>Revenues (Continued)</u>				<u>(Unfavorable)</u>
Other revenues:				
Park impact fees	\$ 75,000	\$ 75,000	\$ 68,000	\$ (7,000)
Storm sewer impact fees	110,000	110,000	91,348	(18,652)
Interest earnings	10,000	10,000	26,072	16,072
Contributions	-	-	500	500
Returned check fee	-	-	255	255
Miscellaneous	5,000	5,000	7,771	2,771
Total other revenues	200,000	200,000	193,946	(6,054)
Total revenues	1,673,100	1,813,100	1,818,498	5,398
<u>Expenditures</u>				
General government:				
Administrative & Legislative:				
Salaries and benefits	128,100	103,100	103,240	(140)
Materials, supplies and services	114,000	114,000	71,767	42,233
	242,100	217,100	175,007	42,093
Judicial:				
Salaries and benefits	40,200	40,200	40,828	(628)
Materials, supplies and services	10,000	10,000	5,381	4,619
	50,200	50,200	46,209	3,991
General governmental buildings:				
Salaries and benefits	130,400	130,400	129,013	1,387
Materials, supplies and services	61,000	61,000	62,820	(1,820)
Capital outlay	210,000	438,000	398,195	39,805
	401,400	629,400	590,028	39,372
Total general government	693,700	896,700	811,244	85,456

FARR WEST CITY  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
 BUDGET AND ACTUAL (CONTINUED)  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<u>Expenditures - Continued</u>				
Public safety:				
Salaries and benefits	\$ 40,400	\$ 12,900	\$ 4,553	\$ 8,347
Law enforcement	218,000	218,000	227,306	(9,306)
Animal control	26,000	26,000	10,531	15,469
Materials, supplies and service	9,000	16,500	1,230	15,270
Total public safety	293,400	273,400	243,620	29,780
Highways & public improvements:				
Class "C" roads	160,000	160,000	195,923	(35,923)
Materials, supplies and service	158,000	108,000	22,496	85,504
Total highways & public improvements	318,000	268,000	218,419	49,581
Parks & recreation:				
Salaries and benefits	143,500	113,500	70,292	43,208
Materials, supplies and services	73,500	73,500	75,443	(1,943)
Capital outlay	115,000	115,000	83,775	31,225
Total parks and recreation	332,000	302,000	229,510	72,490
Sanitation:				
County landfill	74,000	74,000	75,909	(1,909)
Refuse collection charges	56,000	63,000	61,192	1,808
Garbage can purchases	16,000	16,000	10,150	5,850
Total sanitation	146,000	153,000	147,251	5,749
Total expenditures	1,783,100	1,893,100	1,650,044	243,056
Excess (deficiency) of revenues over expenditures	(110,000)	(80,000)	168,454	248,454

FARR WEST CITY  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
 BUDGET AND ACTUAL (CONTINUED)  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Other financing sources (uses):				
Operating transfers (out)	\$ -	\$ (261,000)	\$ (261,000)	\$ -
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses	(110,000)	(341,000)	(92,546)	248,454
Fund balance - beginning of year	730,633	730,633	730,633	-
Fund balance - end of year	<u>\$ 620,633</u>	<u>\$ 389,633</u>	<u>\$ 638,087</u>	<u>\$ 248,454</u>

**FARR WEST CITY**  
**OTHER SUPPLEMENTAL INFORMATION**  
**JUNE 30, 2006**

FARR WEST CITY  
SCHEDULE OF IMPACT FEES  
FOR THE YEAR ENDED JUNE 30, 2006

	Sewer Impact Fees	Storm Sewer Impact Fees
Year Impact Fees Received:		
June 30, 2004	\$ 176,958	\$ -
June 30, 2005	228,273	235,037
June 30, 2006	<u>202,706</u>	<u>107,854</u>
Reserves June 30, 2006	<u>\$ 607,937</u>	<u>\$ 342,891</u>
Capital Projects Planned:	New sewer lines	New storm sewer lines
Projected Schedule for Expenditure	2006-07 2007-08	2006-07 2007-08

**FARR WEST CITY**  
**AUDITOR'S REPORTS AND**  
**AUDITOR'S MANAGEMENT LETTER**

**JUNE 30, 2006**

# ***Davis, Chase & Associates, P.C.***

***Certified Public Accountants***

*Steven J. Davis, CPA, CFP®, PFS*

*Tarina Chase, CPA*

*Ann Singleton, CPA*

## **INDEPENDENT AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE**

To the Honorable Mayor and City Council  
Farr West City  
Farr West, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Farr West City, Utah, for the year ended June 30, 2006, and have issued our report thereon dated November 2, 2006. As part of our audit, we have audited Farr West City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2006. The City received the following major State assistance programs from the State of Utah:

"C" Road Funds (Department of Transportation)  
Liquor Law Enforcement (State Tax Commission)

The City also received the following nonmajor grants which are not required to be audited for specific compliance requirements: (However, these programs were subject to testwork as part of the audit of the City's financial statements.)

### **State and Local Assistance (SLA) Program**

Our audit also included testwork on the City's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide including:

Public Debt  
Cash Management  
Purchasing Requirements  
Budgetary Compliance  
"B" & "C" Road Funds  
Other Compliance Issues

Truth in Taxation and Property Tax Limitations  
Liquor Law Enforcement  
Uniform Building Code Standards  
Impact Fees  
Justice Courts Compliance

The management of Farr West City is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

INDEPENDENT AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE  
PAGE 2

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, Farr West City, Utah, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2006.

*Bavis, Chase & Associates*

November 2, 2006

# ***Davis, Chase & Associates, P.C.***

*Certified Public Accountants*

*Steven J. Davis, CPA, CFP®, PFS*

*Tarina Chase, CPA*

*Ann Singleton, CPA*

## **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Honorable Mayor and City Council  
Farr West City  
Farr West, Utah

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of Farr West City, Utah, as of and for the year ended June 30, 2006, and have issued our report thereon dated November 2, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Compliance**

As part of obtaining reasonable assurance about whether Farr West City, Utah's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Farr West City, Utah's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE

Page 2

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over the financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, legislative body, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Davis, Chase & Associates*

November 2, 2006

FARR WEST CITY  
STATUS OF FISCAL YEAR 2005 FINDINGS  
AND RECOMMENDATIONS  
YEAR ENDED JUNE 30, 2006

1. DEFICIT IN CAPITAL PROJECTS FUND

Appropriations in the final budgets may not be made for any fund in excess of expendable revenues for the budget year. The Capital Projects Fund has a fund balance deficit as of June 30, 2005.

This was a result of an interfund loan from the Sewer Fund to the Capital Projects Fund for the purpose of providing funds for recreation center construction. A loan from another fund of the city is not revenue to the recipient fund but rather is recorded as a liability to that fund. Therefore, a deficit was created as expenditures were made which exceeded revenues.

We recommend the City take steps to reduce this deficit as soon as possible.

**Management Response**

The City authorized this interfund loan with prescribed interest rate and repayment terms. The intent is for the General Fund to budget transfers to the Capital Projects Fund each year to reduce this deficit.

Status: Implemented.

2. QUARTERLY BUILDING PERMIT REPORTS

The quarterly building permit reports submitted to the Division of Occupational and Professional Licensing were not completely reconciled with the general ledger amounts received. This resulted in some building permits not being reported and the surcharge not being remitted to the State of Utah.

We recommend the quarterly reports be reconciled with the general ledger amounts received to insure an accurate reporting.

**Management Response**

The City will reconcile these reports on a quarterly basis with the general ledger and will make an adjustment on the next quarterly report to correct the prior periods.

Status: Implemented

3. TREASURER'S BOND

The current fidelity bond on the City Treasurer does not provide bonding for the proper amount as provided in the Utah Code Section 51-7-15. Every public treasurer shall be bonded in the amount shown in a table provided under the Utah Code.

We recommend the fidelity bond on the City Treasurer be increased to the proper amount

**Management Response**

The City is aware of the required increase in the treasurer's bond based on budgeted gross revenue. The City will increase the treasurer's bond accordingly.

Status: Implemented